• TRENDS

Will Higher Prices Set Off An Inflationary Spiral?

The furor over sharp gasoline price increases that occurred after the Iraqi takeover of Kuwait in early August has died down some—though not forgotten, by any means—and in its place has risen concern over the likelihood of inflation, recession, stagflation, or whatever, caused by the crisis.

While there are many conflicting theories, in this case the most compelling ones appear to be those based on the lessons of the two oil supply disruptions of the 1970s and subsequent economic developments in the 1980s.

If the United States is already in a recession, or will be going into one, as most economists believe, high oil prices would further choke off business activity because it would deprive companies of money needed to expand.

More importantly, if higher oil prices trigger inflation, particularly increased labor costs, business would encounter a persisting drain on available capital—foreboding of possible long-term recession and even depression.

U.S. wholesale and consumer prices have risen directly as a result of higher petroleum prices, partly because oil prices are factored into the price indexes, but that does not by itself mean an inflationary spiral will follow.

The answer hinges strongly, many economists say, on whether the Federal Reserve Bank system tries to head off a recession by making more money available, and how much more? Since banking systems all over the world now realize they got into trouble by doing so in the '70s and '80s, this does not appear likely to happen.

For example, when the Federal Reserve loosened money in late October by cutting the interest rate bank's charge on overnight loans—to 7.75%, down a quarter of a percentage point—the amount was viewed as modest.

It was considered mostly a politically inspired ploy meant to help offset any dampening effect the budget deficit reduction bill passed by Congress might have on the economy. The rationale is that higher taxes and less spending tend to slow the economy down; loosening credit tends to pick up the pace.

The modest size of the interest-rate decrease lent further plausibility to the growing consensus that the Federal Reserve won't help stoke inflation by feeding it money. Petroleum prices are higher, but they don't lead to inflation without help—this is the lesson learned.

A new study by a researcher at the Federal Reserve Bank of San Francisco (FRBSF), Adrian Throop, analyzes what conditions must *not* exist to prevent higher oil prices from becoming inflationary.

First, the Federal Reserve should not try to offset the economic impact of immediately higher prices of many goods and services caused by higher petroleum prices. A little slowdown of economic activity has at least one ameliorating result: it increases unemployment temporarily and removes some pressure for higher wages, one of the principal contributors to spiraling inflation.

Second, the public must not perceive higher petroleum prices to be permanent. Business and labor became accustomed in the '70s and '80s to big swings in the price of oil. If the increases were considered lasting, labor would make demands for higher wages. Without such an expectation, and with an oversupply of labor, such demands would be moderated and persisting inflation would not be instigated.

At present, there is much evidence that most people do not perceive higher oil prices to be permanent. Should the Iraqi occupation of Kuwait give rise to a shooting war, however, with probable destruction of oil-producing facilities, the public perception could change and set off inflationary response.

FRBSF researcher Throop concludes that "the response of wage inflation to supply shocks, such as the current boost to oil prices, tends to be small and to die out fairly quickly. Moreover, the wage response has fallen over time as the market has become more accustomed to fluctuations in the price of oil and as the Federal Reserve's commitment to maintaining price stability has become more credible.

"As a result, the current oil price shock is not likely to set off a significant wage-price spiral." —*Mark Emond*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

SEPTEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.347	$1.297	$1.294	$1.467
Regions				
Northeast	1.368	1.279	1.295	1.498
North Central	1.366	1.353	1.321	1.501
South	1.317	1.314	1.253	1.425
West	1.350	1.277	1.318	1.479

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	9/2/90	9/3/89
Gasoline (Total)	221,221	222,849
Gasoline (Unleaded)*	171,557	164,881
Jet Kerosine	45,131	43,417
Distillates	138,227	120,581
Residual	49,667	50,262

**Included in gasoline total.*
Source: American Petroleum Institute.

Remember '79? Are 'Gas' Line Nightmares in the Cards Again?

Theoretically, there shouldn't be any serious supply problems this winter, but in the Never-Never Land atmosphere of today's marketplaces, don't be surprised if a faltering distribution system should suddenly recreate the nightmarish "gas" lines of 1979.

In mid-October, product inventories were as normal as could be. Only propane seemed to be depressed. Gasoline and distillate prices were wild and wooly, however, and there was no indication that they would shake down until well into 1991, at the earliest.

Only war itself, or possibly terrorist activities affecting supply lines or refineries, could upset the stalemate that now exists. If war comes, the probability of "gas" lines at service stations is as inevitable as the winter's snows.

The Atlantic seaboard from Maine to Florida would be the hardest hit, of course, because there are more cars and more people to be catered to here than elsewhere in the country. The East Coast requires about one-third of the nation's gasoline supplies (about 35-billion gal.) to satisfy its 59-million cars, trucks and buses. The coastal states also have about 71-million people, a little less than one-third of the nation's total.

True, public transportation is more readily available on the East Coast than elsewhere, but somehow that never seems to save the day when panic situations engulf the gasoline marketplaces.

Remember what it was like in 1979? This could be Anytown, U.S.A., but for the moment focus on Morristown, N.J., an affluent county seat town of perhaps 20,000 or so souls, to put things in perspective.

Back in 1979, people parked all night near service stations, huddled and uncomfortable pending the usual 7:00 a.m. opening. Sometimes the gasoline lines were a mile or more in length, depending on roadways, access facilities and harassed police forces.

Brand loyalties were forgotten. Morristown people, like their counterparts elsewhere in the U.S.A., paid whatever it cost to get a motor fuel, so long as it was liquid and would make their engines go, even if they did sputter and ping. Back then the going price was a little over $1 gal. Today the all-types average is almost $1.50 and there's no end in sight. The worst possible scenarios regard $2 to $3 gasoline as distinct possibilities in 1991.

There are fewer gasoline stations in Morristown today to cope with lines and logjams, just like in other communities. Nationwide, there are 110,000 "true" service stations now compared with 150,000 in 1979. There are fewer independents, many of them having been churned underground in the rough marketplaces of the early '90s.

Gasoline marketing became a numbers game in 1979, depending on whether license plates had odd or even numbers. Some people had extra sets, switching to suit their needs. Fist fights and knifings, while not commonplace, happened often enough to make holding a place in line a touch-and-go affair.

Here's a rough calculation of the Atlantic seaboard and its petroleum characteristics:

1989 Data

State	Motor Vehics. (mm)	Gasoline Consump. (mm bbl.)	Population (mm)
Maine	1.0	15.5	1.1
New Hamp.	1.0	7.7	0.9
Vermont	0.5	4.3	0.5
Mass.	3.8	60.6	5.7
Conn.	2.7	31.9	3.0
Rhode Is.	0.7	12.9	0.9
New York	10.2	125.3	17.6
New Jer.	5.9	108.6	7.4
Delaware	0.5	8.4	0.6
Maryland	3.6	45.4	4.2
D.C.	0.3	4.3	0.6
Virginia	4.7	72.0	5.3
N.Car.	5.2	80.3	5.9
S.Car.	2.5	39.6	3.1
Georgia	5.4	81.3	5.5
Florida	11.4	145.4	9.7

Pa. Testing Sawdust As Fuel Oil Alternative

Pennsylvania is exploring a variety of options, including sawdust, to find an alternative for fuel oil in 700 or so state office buildings. Interesting as the sawdust option sounds, however, it may prove to be, like the old adage says, a cure that could be worse than the illness itself.

A test of the sawdust option is being made at a state hospital in Warren, in northwestern Pennsylvania. The sawdust is coming from the furniture and paper industries. State authorities estimate the hospital needs three tons of sawdust an hour to replace the fuel oil it's now burning. At that rate, the hospital needs 72 tons/day or 500 tons/week. In itself, that would create quite a storage and transportation problem. Nevertheless, the state says a saving of $400,000 a year could be realized.

Pennsylvania has about 2,500 office buildings, of which about 25% rely on fuel oil. The idea is to switch away from oil entirely, if possible, to reduce the state's dependence on foreign oil sources. The plan was announced recently by Lt. Gov. Mark Singel.

Getty Sued for Tank Leaks in Connecticut

Getty Petroleum Co. has become the third marketer in recent months to be sued by the Connecticut State Attorney General for alleged improprieties in underground storage tanks.

The suit was filed in Hartford Superior Court in September by Clarine N. Riddle, on behalf of the state. It alleges Getty missed a Sept. 1 1989, deadline for replacing tanks at five locations and for failing to report leaks at several others.

Riddle said the oil company faces possible penalties of $10,000/day for violations prior to Sept. 1, 1989, and $25,000/day for violations after Oct. 1, 1989.

In September the state also sued the owner of an independent station in Greenwich, alleging that it had an 8,000-gal. leak. Last March, Hendel Inc. of Stonington, was charged with a 1,500-gal. leak. Riddle's office said penalties could exceed $15-million.

Sun Field Tests Expand Used Oil Disposal Center

Sun Refining and Marketing, the second largest manufacturer of lube oils in the U.S., has opened a used oil collection center in Pennsylvania and says it may expand the concept systemwide if it proves successful.

Customers must transport their used oil in approved containers to a designated Atlantic service station on Route 30 near Exton. If the idea clicks, says lube division vice president David Rippy, it'll be expanded as an environmentally sound alternative for the do-it-yourself oil changer.

In similar vein, Mobil Corp. launched a TV campaign in October to urge motorists to dispose of their used oils in an environmentally acceptable manner. Mobil said 175-million gal. of used lubricants are disposed of improperly every year.

N.Y. State Cancels Permits Of 'Worst Harbor Polluter'

It'll probably take years before the last "i" is dotted and "t" is crossed, but New York State is now engaged in a legal battle to shut down what it says is the worst polluter yet of its harbor waters—a family-owned network of barging companies that has been accumulating fines and violation citations for 20 years.

There may be millions of dollars in penalties and unpaid taxes, and even jail sentences for some of the principals, before it's all over. Officials said the family's four dozen or so interlocking companies now owe New York city and state and interests more than $1-million, and tens of thousands more to New Jersey and federal agencies. The incredible case surfaced in mid-October, when New York's commissioner of environmental affairs revoked the operating licenses of at least 19 of the family's barges.

Now he's trying to make the revocations stick. No one expects this to happen without a long and hard legal battle that will probably last for years. It may take months, for example, just to untangle the labyrinth of companies to identify them and their principals.

The commissioner's office said eight of the barges lack Coast Guard inspection certificates and five others have been cited for failure to complete required inspections. The barges currently handle about 10% of the petroleum and sludge disposal in New York Harbor.

In the past seven years alone, the commissioner's office said, the barges have been involved in three groundings, nine oil spills, two collisions and 21 cases in which the Coast Guard assessed penalties for federal safety violations—none of which has been paid.

More than 1-million gal. of petroleum products have been spilled in the harbor this year alone, most of them in the Kill Van Kull waterway which separates New York City from Staten Island and New Jersey. The current action stemmed from a 40,000 gal. spill in October. The Coast Guard said the vessel in question lost its certificate to haul petroleum products and sludge three years ago.

Evelyn Berman Frank, the matriarch of the clan and the chief executive of one of the companies involved, is in her seventies, city officials said. She faces a possible jail sentence now after pleading guilty to a charge of illegally dumping sewage sludge in the harbor in 1987 and 1988. One of her companies, General Marine Transportation Corp., has already agreed to pay a $1-million fine.

Thomas C. Jorling, New York's environmental affairs commissioner, said this was the first time, to his knowledge, that the licenses of a company operating in the harbor had been revoked.

"This is the worst performer yet with respect to the rule of law," Jorling said.

The *New York Times* blamed bureaucratic oversights for much of the problem as well as fears that other sludge and petroleum barges wouldn't be able to handle the traffic if one as big as Frank's would be put out of business.

New York State Attorney General Robert Abrams was quoted as saying that prior to the 40,000 gal. spill his office "didn't have a hint of wrongdoing" by any of the Frank-owned companies on the Manhattan side of the harbor.

Lube Sales Down Slightly in '89 With Only Minor Changes

The National Petroleum Refiners Assn. (NPRA) says U.S. sales of lubricants and by-products varied slightly in 1989 with hardly enough change to make a noticeable difference.

Here's the NPRA chart for the last three years, with 1987 being the peak year:

Automotive/industrial Lubricants

(millions of gals.)

	1987	1988	1989
Total Oils	2,427	2,415	2,393
Total Grease	56	53	55
Total	2,483	2,468	2,448
By-products			
Aromatic Oils	89	81	87
Total Waxes	244	252	248

Automotive Oil Sales By Channel of Distribution

	1987	1988	1989
Retail	807,016	749,503	780,111
Comm.	483,815	424,165	473,341
Factory Fill	59,941	65,841	58,504
Undist.	78,819	164,011	93,417
Total	1,430,591	1,403,520	1,405,373

Speculators Fingered As Price Hike 'Culprits'

'Twas only a small voice in October, but a Washington energy consultant put the blame for the marketplace hysteria of recent months on the shoulders of those he says are directly responsible—traders and speculators, not oil companies and marketers.

In a signed article in the *New York Journal of Commerce*, John P. Venners, president of Venners & Co., Washington, D.C., had this to say about the chaotic conditions and unjustified spikes in crude and product prices in the wake of the Iraqi conquest of Kuwait:

"Since the advent of oil futures contracts several years ago, oil pricing has largely been taken away from the direct participants in the oil business and turned over to speculators and traders at the New York Mercantile Exchange. These Wall Street Refiners thrive on volatility and have the ability to continue fueling a trend, even if it is contrary to market fundamentals. Those in the business of buying, refining and distributing 'wet' petroleum products often have been steamrollered by these chart-driven market setters.

"Unlike dealers who trade stocks and bonds on the major exchanges, traders in the oil futures pit can trade on their own account while having full and complete knowledge of what other customers' positions and strategies may be. Most importantly, these traders know where many of the stop loss orders are on major positions. With that privileged information, they often have the ability to trigger those stops, which further drives an already distorted market."

Venners also contended that the Wall Street Refiners "thrive on volatility and rumors to manipulate and distort the market. They can not make real money in a stable market and they are certainly not concerned about the political backlash of rising crude oil prices. It's a big game that makes a lot of money for those that control it."

Venners also questioned the wisdom of turning a major commodity with serious national security implications, such as oil, over to a group of short-term traders and speculators who have never seen a barrel of crude oil or even a refinery. His conclusion:

"If the oil companies are being asked to justify price increases during this time of crisis, then perhaps we should consider taking the pricing vehicle away from Wall Street traders and give it back to those who understand fundamentals and the real market."

Progress Report on State

One by one, over the past year, states throughout the U.S. have been getting their underground storage tank regulations into place. Many states have also adopted trust funds for cleaning up underground storage tank leaks.

So far, approximately 19 states have adopted the EPA's minimum technical standards and financial responsibility requirements. Some states have adopted even more stringent regs to meet the volatile needs of their environment. Whatever the case, when finalized, the individual state tank regulatory programs will override the federal rules.

A number of states adopted tank cleanup funds prior to the EPA releasing its technical standards and financial responsibility requirements for tank owners and operators. But most of these have been revised to meet the federal mandates.

Several insurance companies have also been dovetailing their policies around state trust funds to help ease the financial

State	Cleanup Fund	EPA Approved	Mandatory Participation	Funding Mechanism
Alabama	...is recognized as providing financial responsibility for owners.	Yes	Yes	$10-$150/tank fee
Alaska	...is a loan grant to cover contamination. If tank meets 1998 standards, registration is $50; otherwise, $150–$500. Must have tank testing and site assessment within one year of registration. State will reimburse 50% of costs up to a certain limit. Fund will be cut off in 1994. No new applications after that; however, clean-ups do not have to be finished by that date.	No	Yes	(See Fund)
Arizona	...has a $5,000 deductible=$145,000 coverage; $25,000 deductible=$225,000 coverage. After 12/31/91, After 12/31/91, $5,000 deductible=$130,000 coverage; $25,000 deductible=$200,000.	Pending	Yes	1¢ gal. + $100/tank fee
Arkansas		Conditionally	Yes	.2¢ gal. + $35/tank fee
California	...is a reimbursement fund, not an insurance program, effective until 1/1/98. Being reviewed.	No	Yes	$200/tank fee + gal. fee expected
Colorado	...drops below $1.5 M, the surcharge will be doubled. Legislation pending.	No	No	$30/tank fee + $25–$30 surcharge
Connecticut		Pending	Yes	3% gross earnings from quarterly sales of petroleum products
Delaware		No	No	$1 M appropriation from state revenues
Florida	...is retroactive if reported before 12/31/88 and costs incurred after 1/1/85. Bbl. tax is 30¢ to bring the fund up to $15 M. Can be reduced to 10¢/bbl.	Pending	No	$50/tank fee + $25 renewal fee and /bbl. tax
Georgia		Pending	No	.1¢ gal. on imported petroleum products
Hawaii	...is at the research stage. State legislature has passed a bill to set up a guaranteed fund to meet federal regs.			
Idaho	...generates $9 M a year.	No	No	1¢ gal. bulk on products + $25/tank fee
Illinois	...is retroactive prior to 7/28/89, but there is a higher deductible ($50,000–$100,000). Must provide an insurance statement to verify. Claim is filed with insurer first, if available.	Yes	Yes	.66¢ bulk delivery fee
Indiana	...is a liability fund. Expect to generate $10 M/yr. Also have a state guaranteed loan program for small owners/operators for upgrading.	No	Yes	$290/tank fee; state insurance $2.5 M/yr.
Iowa	...participation must be in by 10/90.	Pending	Yes	.85¢ gal.+ $65/tank fee
Kansas	...deductible is $5,000, 1–4 tanks; $10,000, 5–12 tanks; $20,000, 13–98 tanks; $60,000, 99+ tanks.	No	No	1¢ gal. motor fuels
Kentucky	...is to be administered by a commission not yet appointed.	No	Yes	.04¢ gal.
Louisiana		Yes	Yes	$100/tank fee
Maine	...is 44¢/bbl. gasoline; 25¢/bbl. refined petroleum products other than gasoline. In 1/94, 48¢/gas, 27¢/petroleum products. Major oil companies, government not eligible.	Pending	Yes	(See Fund)

Regs and Cleanup Funds

burden tank owners are being faced with.

State cleanup funds do not, in many cases, cover the entire costs for cleaning up a release; rather, they provide financial assistance to marketers. The funds help marketers meet EPA regs which require that owners of underground tanks be financially able to remedy any leaks and compensate third parties for property damage caused by accidental releases from the USTs. However, there are some state trust funds which are very comprehensive.

Most of the funds compensate for on-site spills (damages to property owned by the insured) and off-site releases (property off the initial leak site). However, many of the tank funds do not compensate for third party bodily injury.

The table beginning below provides an updated state-by-state accounting of what is being mandated to date in each of the 50 states, plus the status of the trust funds in those states.

Cleanup	Third Party	Deductible	Work With Insurance	State Regulations
$1 M	$1 M	$5,000	Yes	...differ from EPA in that action limits on contamination require 30-day prior notification before closing or installing tank.
$1 M	$1 M	$2,500	Yes	...give DEC the authority to form regulations consistent with the EPA. Anticipate those in force by 3/1/91. At first, they cannot be stricter than the federal regs. Each year they must report back to the legislature on the number of tanks registered, number of clean-ups and how the money is being spent. At that time, they can show areas that may need regulation not covered in the federal regs or areas that should be stricter.
(See Fund)	(See Fund)	(See Fund)	Yes	...became effective in 1986 and they mimic UST requirements suggested in the Resource Conservation and Recovery Act. New rules are in the process of promulgation and won't be in effect until mid-1991.
$1 M	$1 M	$25,000	Yes	...are the same as EPA regs, however, installers must be registered.
$1 M	$1 M	$50,000	Yes	...are more stringent than the EPA's in that they require secondary containment, permit for tank owners and installer certification.
$1 M	$1 M	$10,000 cleanup $25,000 third party	Yes	...became effective 11/90. State oil inspector enforces regs, however, the State's Attorney would be called in if they need help.
$1 M	$1 M	None	Yes	...are currently under review. Regulators are working on two drafts of regulations to merge with EPA requirements. The state has full authority to recover all expenses, plus more, for any violation.
$1 M	$1 M	$2,500	N/A	...are in the process of updating to comply with federal regs. Updated schedule will be more stringent.
$1M	$1 M	$500-$25,000	Yes	...became effective 11/90. Require secondary containment on new piping. Also have regs that protect portable wells.
$1 M<100 UST $2 M>100 UST	$1 M	$10,000/occurrence	No	...were adopted 1/90 and are the same as EPA's. Defines specific cleanup levels, protects drinking water and ground water.
				...are in the process of being developed.
$1 M	$1 M	$10,000	Yes	...are the same as EPA regulations.
$1 M	$1 M	$10,000-$100,000	Yes	...are the same as EPA regs, however, have specific levels for clean up, soil requirements, and reporting requirements. The Fire Marshal regulates installation and removal of tanks, plus regulates heating oil tanks. Requires certification/registration of installers and removers.
$1 M	Yes	$25,000-$35,000	No	...are the same as EPA regs. In the process of working with the Fire Marshal to handle inspections and closures when state and EPA regulations correspond. Completion expected 12/90.
$1 M	None	$5,000 or 25% cost	Yes	...are bound to federal regs under state legislature.
$1 M/occurrence $1 M/agg.<100 UST $2 M/agg.>100 UST	(See Fund)		Yes	...were expected to be effective 11/90. Legislature adopting EPA regs by reference. Also regulate heating fuel tanks for non-single family dwellings.
$1 M	$1 M	$10,000<5 tank $25,000>6 tanks	N/A	...are the same as EPA regulations.
$1 M	$1 M	$15,000	Yes	...are the same as EPA regulations.
$1 M	$200,000	$2,500-$100,000	Yes	...require secondary containment. Replacement schedule is more accelerated than federal regs. Do not allow retrofitting.

State	Cleanup Fund	EPA Approved	Mandatory Participation	Funding Mechanism
Maryland	...is not available.			
Massachusetts				
Michigan	...will expire in 1994. Over 400 claims submitted. Owners must show proof of financial responsibility for deductible.	No	Yes	.87¢ gal. refined petroleum fee
Minnesota	...have settled 300 claims for $12 M. As of 8/90, 3,000 leak sites have been filed.	Yes	No	$10/1,000 gal. petroleum products
Mississippi	...deductible after grace period 5/18/88–6/30/90.	No	Yes	.2¢ gal. motor fuel + $40/tank fee
Missouri	...will be operative 1/1/91. Future participation will require application and annual premium.	Pending	No	$100/tank fee
Montana	...rules will be approved by the board 3/16/90. Average 45 day processing claim.	Pending	No	1¢ gal. gasoline; .75¢ after 6/30/91
Nebraska		No	Yes	$25/tank fee + .3¢ gal. gasoline + .1¢ gal. diesel tax
Nevada	...is $1,000 for residential.	No	Yes	.6¢ gal. petroleum products + tank fee
New Hampshire		Pending	Yes	.6¢ fee on oil transfers transported into state
New Jersey	...is not available.			
New Mexico	...pays first $25,000 per incident plus 50% between $200,000 and $1 M.	No	Yes	.2¢ gal. tax on gasoline and special fuel entering state
New York	...does not serve as financial responsibility.	N/A	Yes	4¢/bbl.>400,000 gal.
No.Carolina	...is residential.	Pending	Yes	.125¢ kerosine tax $45/tank fee<3,500 gal. $70/tank fee>3,500 gal.
North Dakota		Pending	Yes	.225¢ gal. tax; $25/tank fee
Ohio		Yes	Yes	$150/tank fee
Oklahoma		Yes	Yes	1¢ gal. for gasoline, diesel, blending fuels
Oregon	...is not available. State has a LUST Fund.			
Pennsylvania	...is not available. State has a LUST Trust Fund. UST indemnification board is in the process of organization.			
Rhode Island	...is not available. Will propose legislation again in 1/91.			
So. Carolina		No	Yes	$100/tank fee + .5¢ gal. terminal fee
South Dakota	...board can waive 80% of deductible, if release is discovered while upgrading. Financing is available through PECA and SBA's 7A Loan Program.	Pending	Yes	1¢ gal. gasoline/ distillates sold
Tennessee	...deductible is 1–12 tanks, $10,000 cleanup, $10,000 third party; 13–999 tanks, $20,000 cleanup, $37,500 third party. Should generate $1 M/mo. Avg. $50 M to hwy. dept. Currently inspecting to verify registration.	Pending	Yes	$125/tank fee + .4¢ gal. tax

Cleanup	Third Party	Deductible	Work With Insurance	State Regulations
				...require certification of installers; tighter schedule on reporting of spills.
				...are stricter in water supply areas, especially near major surface water areas, reservoirs and other major water supplies. Regulate heating oil tanks in these areas. Also, accelerated closure on sub-standard tanks (unprotected steel, concrete, unknown). Mandate double-wall tanks and secondary containment for piping. Permit is required before installing, removing or upgrading.
$1 M	$1 M	$10,000	N/A	...basically mirror the EPA's. One of the most notable differences is that M requires all unused tanks be removed from the ground. The Fire Marshal has the authority to institute stricter requirements, mandate spill protection and institute inspections prior to use.
$1 M	$1 M	10% up to $100,000	N/A	...have been modified to include regulating heating oil tanks 1,100-gal. or more. Notification is required for state inventory of tanks. Owners and operators must report changes and give a 10-day notice for removal and 30-day notice for installation.
$1 M	$1 M	$10,000 third party $5,000 cleanup	No	...have been adopted by reference mimicking EPA regs. The enforcement body in the state is the Mississippi Dept. of Natural Resources.
$1 M	$1 M	100% 1st $25,000 50% 2nd $25,000 25% $50 M to $10 M	Yes	...are stricter than the EPA's on removal and closure. Have very specific sampling levels. Also, protect groundwater.
$1 M	$1 M	50% 1st $35,000	Yes	...are similar to EPA regs except they include farm tanks. These regs cover small farm and heaing oil tanks as well as piping.
$1 M	None	$10,000-$25,000	Yes	...are somewhat stricter than EPA's. The program regulates all phases of installation and some phases of removal.
$1 M	$1 M	$25,000	No	...are the same as EPA regulations.
$1 M	$1 M	$5,000–1 facility $20,000–2-19 fac. $30,000>20 fac.	Yes	...require secondary containment and regulate home heating oil tanks. Legislation still pending to bring the remainder up to EPA standards. Regulations enforced by the Dept. of Environmental Services.
				...are more stringent than federal regs, especially where there are storage tanks above sole source aquifers. The new legislation requires daily or continuous monitoring and spill/overfill protection.
(See Fund)	None	None	None	...require a tank fee of $75 per year (pending new legislation effective early 1991) and notification of a spill greater than 25-gal.. Require notification of major modifications or construction. Owner is accountable instead of owner/operator as in federal regulations.
$1 M	$1 M	None	Yes	...are more stringent than the EPA's; have been in place since 12/85. Registration, installation, testing, removal and closure specification of bulk storage tanks is required. Other areas include secondary containment on tanks and piping.
$1 M aggregate	$1 M aggregate	$50 M cleanup $100 M tank/ occurence	Yes Yes	...are expected to be effective 10/90. Legislation has been proposed. Debating double-wall containment, upgrading and release detection.
N/A	N/A	N/A	Yes	...require advance written notice for removal. Not real strict on 30-day policy.
		$50,000 $10,000<6 tanks	Yes	...mimic federal regs, but in the process of writing state regs.
$1 M	$1 M	$5,000	No	...requires state licensed installers. Proposing cleanup action levels for the soil. Also, regulate ethane base antifreeze tanks.
				...are the same as EPA regs. Regulate simple soil contamination levels. DEQ enforces.
				...govern ASTs and USTs. The state requires tank registration, certification of installers and inspectors and yearly inspection with the Dept. of Natural Resources conducting follow-up investigations.
				...have been in place since 1984 and are as stringent as the EPA's. There are some exceptions. For example, the state's tank testing program, started in 1986, is considered to be tougher than the EPA's. State regs are still under review.
Rehabilitation	None	$25,000	Yes	...are the same as EPA regs, except state requires permits to construct and operate. Transfer of ownership requires site assessment.
$1 M	None	$10,000	Yes	...have been in place since 11/89. These regs basically follow EPA mandates, however, they regulate both ASTs and USTs with varying compliance dates.
$1 M	$1 M	(See Fund)	Yes	...are the same as EPA regs with the exception of groundwater monitoring.

State	Cleanup Fund	EPA Approved	Mandatory Participation	Funding Mechanism
Texas	...is $12.50/yr. for <2,500 gal.; $50/yr. 8,000–9,999 gal. $10,000 $25 each in 5,000 gal. increments.	Pending	Yes	(See Fund)
Utah	...requires owners and operators to pass tank tightness test for eligibility.	Pending	Yes	$250/tank fee $150 after 6/30/90
Vermont	...is in effect until 7/1/94. Can file claims until 7/1/96. Tank fee depends on facility and gallons sold.	Yes	Yes	1¢/gal. motor fuel; $100–$200/tank fee
Virginia		Pending	Yes	.2¢ gal. motor fuel tax
Washington	...is similar to LUST Fund.	No	Yes	.7¢ of 1% × wholesale value of hazardous wastes and petroleum tax on wholesale imports
West Virginia	...is an insurance fund expected to be finalized and in place by the end of 1990. One time capitalization fee to all tank owners. Mandatory to start up fund.			
Wisconsin	...was effective as of 7/31/90; 1,187 claims processed. 183 paid $8,253,605.66.	Yes	No	11.6¢/50 gal. bbl.
Wyoming	...has total amnesty to participate and recieve funding. Register, perform minimal site assessment, stop release.	No	Yes	$200/tank fee + 1¢ gal. tax

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Circle Reply No. 143

Continued from page 3

Keith Angell, regional operations manager, Groundwater Technologies, Inc., Norwood, Mass., concurs. He adds that a multidisciplinary firm should have staff experienced in hydrocarbon remediation up through site closure.

A qualified firm in soil and groundwater remediation should offer the following:

- A thorough understanding of local, state and federal regulations regarding UST contamination.
- A good working rapport with government agencies and experience with negotiating approvals and permits.
- A solid working knowledge of the proper paths required to complete a project in a timely and cost-effective manner.
- Experience in serving as expert witnesses in court, including a proven track record on remediation procedures that are not only effective, but legally defensible.

Look for firms that offer quality services at competitive prices, Angell says.

Even more important than choosing a consulting firm, Angell says, is for retailers to institute their own systematic approach for dealing with product releases. This makes it possible to control related costs, liabilities and exposures.

Angell says such a program should immediately identify imminent hazards, the extent and impact of the loss, the principal responsible parties for the cleanup, ap-

Cleanup	Third Party	Deductible	Work With Insurance	State Regulations
$1 M	None	$10,000	Yes	...require a 30-day prior notice for installation amd abandonment, strenuous registration requirements and spill/overfill protection required by 1994, not 1998 as mandated by the EPA. State regs require cathodic protection on all tanks; however, tanks over 10 years old don't require internal inspection before applying cathodic protection.
$975,000	$300,000	$25,000	Yes	
$1 M	$1 M	$10,000 cleanup $0 third party	N/A	...are generally more stringent than EPA requirements. Legislation has been proposed which includes testing program for existing tanks, secondary containment requirements and new construction.
$1 M	$1 M	$50,000 cleanup $200,000 aggregate	Yes	...are generally the same as EPA rules, with the exception of regulating heating oil tanks at 5,000 gal. Requires permits from building officials.
$1 M	None	None	Yes	...are somewhat more stringent than EPA's regs. Requirements include 60-day notice prior to installation; and stricter spill/overspill reporting. Tank closures must be permanent or upgraded within 30 days after 1 year; require site assessment at closure for tanks using external release detection; require permanent closure within 30 days of 30-day notice; require licenses for tank inspection, installation and testing.
				...mimic EPA regs.Also, require 30-day notice after tank is in service.
$1 M $195,000 AST $7,500 max payout	$1 M	$5,000	Yes	...are similar to EPA's. The state has two departments that handle federal UST regulations. The Dept. of Industry, Labor and Human Relations participate in petroleum inspections for USTs. The Dept. of Natural Resources handles cleanup under the state's spill law.
$1 M	$1 M	$30,000 financial responsibility $0 corrective action	Yes	...follow EPA regs. Enforced by DEQ.

plicable regulations, agency priorities and cleanup criteria, appropriate remedial action, installing and operating remedial systems and methods for attaining closure.

"In the unfortunate event of a spill, a retailer's greatest asset in conducting a fast and effective cleanup and remediation are the services of an experienced environmental consultant," says Angell.

A reputable firm will quickly diagnose the nature and extent of the problem and, in most cases, recommend the best of many potential treatment options, as well as guide retailers through a maze of compliance reguirements.

Angell explains that a good consulting firm will also have computerized project management capabilities, understandable accounting procedures making it clear what is being paid for, insurance (including environmental impairment), comprehensive in-house capabilities which limit excessive subcontracting costs, i.e. tank testing, line testing, risk assessment, drilling etc.

He also suggests that a retailer select a consulting firm before a major environmental problem crops up.

"In the selection process, first retain a firm to do some simple and relatively inexpensive site auditing. This makes it possible to make an unhurried judgment about which firm is best qualified to help in the event of an environmental emergency."

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Circle Reply No. 153

Exclusive Service Station Survey

Study Looks at UST Age, Numbers

That the new underground storage tank regulations have hurt the retail gasoline business is news to nearly no one. However, no segment has been hit harder than the independent service station dealer.

Numerous studies of the regulations' impact on stations have been conducted by independent agencies, associations and the government itself and all point to a further shrinkage in the traditional service station universe as a direct result of the UST regulations.

About the only thing in doubt are the numbers; how many stations will be forced to get out of the gasoline business or close altogether? Only the coming years will tell.

For now, however, we have a grasp on how many tanks are under the typical service station and the median age of those tanks. As part of Hunter Publishing's Traditional Aftermarket Profile survey conducted earlier this year, a random sampling of service station dealers were asked about the USTs at their stations. Here's a look at the results.

For the purposes of this study, a traditional service station is defined as any retail location (either company-, jobber- or dealer-owned) that sells gasoline and auto repair services.

Based on Hunter Publishing figures, the traditional station universe consists of approximately 90,000 locations across the U.S. Previous company surveys have determined that about half of all the traditional service stations are owned by the dealer who operates them.

First, as the accompanying chart shows, the vast majority of dealers say there are between two and four USTs at their stations. Taking survey information a step further, the median number at the typical service station is 3.43 USTs, an increase of about 40% from the station heydays in the 1960s. This increase supports the notion of a trend toward larger stations, more storage capacity and more product diversity at service stations.

The next chart examines the average age of the USTs at America's service stations. The survey found that more than one third of all stations are equipped with USTs that are five years or less in age. On the down side, the survey also revealed that 13 percent of the dealers in the survey reported their tanks are 25 years or older.

Further examination of the figures shows that the median age of service station USTs is 12.22 years.

The first pie chart (See Figure 1) shown on this page reveals that only one dealer in five has chosen to reline his tanks as one option for preventing leaks from USTs.

Leak detection monitors and equipment appear to be making strong inroads into the service station arena as the next chart attests. Nearly half the dealers in our survey report some form of leak monitor installed on their equipment.

Likewise for UST insurance. The prospects of multi-million dollar liability actions being brought against a dealer's business has prompted many to sign leak liability plans. Others are covered by one of the state-run UST insurance programs that have sprung up in the past three years.

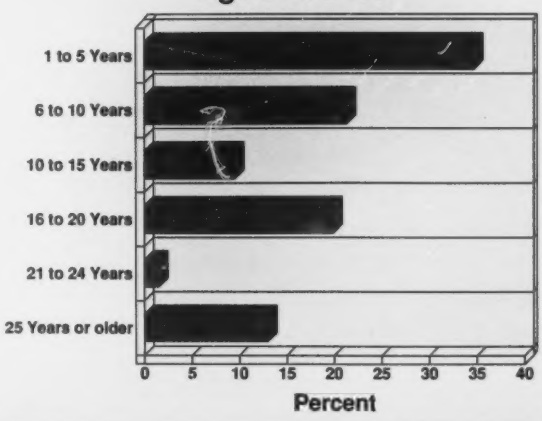
Liability insurance remains out of reach for many thousands of independent dealers across the country and, until the situation is remedied, these dealers remain in a perilous position regarding their continued business operations.

Have Tanks Been Relined?

Leak Monitor Installed?

USTs Have Leak Insurance?

Age of USTs?



The Outlook for Fuel Oil: Expect More Market Erosion

The price fluctuations that have slammed into the oil heating business like a mid-Atlantic hurricane have turned out to be a dream for speculators...but a nightmare for dealers.

Expect the oil heating industry to lose as much as 5% of its market share by the end of this heating season, thanks to the latest round of price increases. The current escalation, the second since last December, seems to be the final straw for many consumers, who see natural gas as a cheaper and more reliable alternative.

In today's society, image elects presidents and evidently controls the fate of heating fuels as well. That's the conclusion of analysts who regard the current price escalation of petroleum products as a major threat to home heating oil market share, shaky at best after last December's run-up.

That "spike," the result of mysterious circumstances which were never fully explained to the satisfaction of anyone, would have been much worse had the winter's weather not turned mild following the December deepfreeze. Although that price increase was short-lived, it was still fresh in the minds of consumers when the Iraqi situation brought about another sharp upturn in the cost of heating oil.

Another dreadful development for the fuel oil industry is the proposed federal tax on petroleum products, including home heating oil. Oil heat groups throughout the East were immediately mobilized to lobby against passage of the tax, despite the insistence by Congress and the Bush Administration that such revenues were mandatory in order to reduce the federal government's staggering debt. The main thrust of their argument against the proposed tax (beside the fact that it further increases the price of oil) is that it discriminates against heating oil marketers since there is no comparable tax on natural gas, propane or electricity.

No shortages yet

Although there have been no signs of supply shortages (and in fact mid-October primary distillate stocks were more than 10-million barrels above the same period a year ago) the perception remains that price increases are a precursor of supply interruptions and run-outs. This image is a legacy of the gasoline lines of the 1970s, despite the fact that home heating oil users were never without product during either of the so-called oil crises. "Homeowners just get fed up," concludes one analyst who regularly monitors consumer trends for major industries.

Naturally, retail fuel merchants were accused of price gouging as soon as prices began to escalate just days after Kuwait was annexed and long before such events should have impacted oil prices. The fact that the Iraqi situation occurred in the summer meant that the gasoline market was the primary focus of the increases in the beginning. Investigations were launched by various legislative bodies and the U.S. Justice Dept., which by mid-October had stepped up antitrust hearings and had issued subpoenas to a number of major oil companies and independents for internal marketing and pricing documents. A spokesperson for the Justice Dept. said the investigation would continue "until we determine whether or not violations of antitrust law contributed to the rise in gasoline prices."

While all this was going on, the price of home heating oil was quietly escalating as much as or more than gasoline, with little or no notice by lawmakers who were too busy worrying about increased motor fuel prices. Oil heat's competitors, on the other hand, were busy taking advantage of the opportunity.

"The gas utilities are continuously spending many millions of dollars to tell consumers that they're cheaper and more dependable," an industry source said. "The oil industry has been able, for the most part, to counter these arguments, but the price spikes totally destroy their credibility."

The industry's response

In an effort to fend off the bad press surrounding price increases, the oil industry abruptly revised its marketing strategy soon after it became evident that utilities would attempt to capitalize on soaring oil prices. The "Don't Fall for the Gas Line" theme that had been used this past spring in major East Coast media was shelved and replaced with a series of ads that stressed the historic competitiveness of gas and oil prices. According to a spokesperson for the East Coast Energy Council, a coalition of oil heat associations from New England to Virginia, the unanimous decision to develop a new advertising campaign rather than use the "Gas Line" ads came about because of the uncertainty surrounding the Iraqi crisis. "The 'Gas Line' campaign simply wasn't appropriate due to recent price increases," said James Devine, executive director of the ECEC. "The new campaign acknowledges recent price changes but reminds consumers that the estimated $2,000 cost of converting to gas will never be recouped."

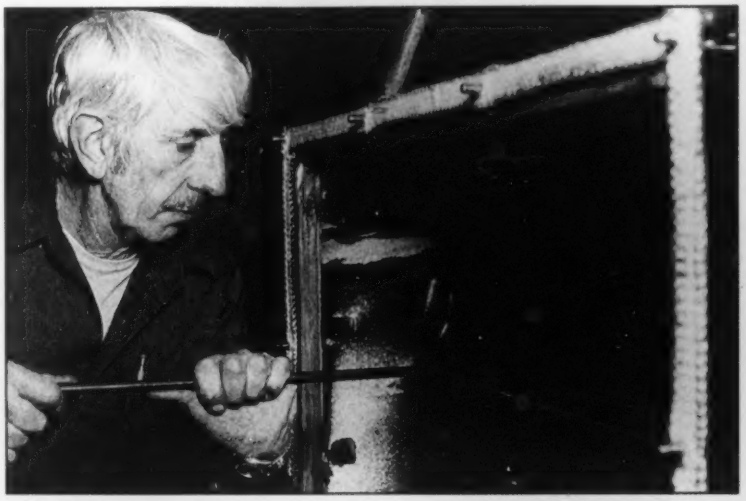
The revised campaign concentrates exclusively on print and radio ads. The radio

Price fluctuations caused by the Middle East crisis have put home heating oil dealers at a competitive disadvantage. The industry faces a loss of up to 5% in market share by the end of the heating season.

By George Schultz
Contributing Correspondent

markets were saturated with over 400 spots per week from September until Thanksgiving. "Our message is not easily expressed in a 30-second television commercial," Devine explained. "In a changing 'crisis' environment, radio is the key medium, not TV." Devine also notes that television production costs could be prohibitive as the advertising message might need to be modified as world events change.

Despite these efforts, utilities throughout the Northeast report that conversions from oil to gas have risen dramatically, almost to the levels of the early 1980s when the oil heating industry lost more than a million customers.



In-house service departments are deemed crucial for marketers who want to retain home heating oil customers.

How much bleeding?

Experts agree that the fact that the trouble began in August instead of December has helped the heating oil industry to a certain degree, since it has given them some time to prepare for irate customers once the cold weather begins.

Despite this, there has still been tremendous difficulty in market reaction. In New Jersey, for example, heating oil prices went up more than 40% by mid-October, with a resulting flood of inquiries to gas utilities about conversions.

New Jersey, a key oil heat stronghold, has been vulnerable to losses to other fuels for a number of reasons. Its affluent demographics, coupled with aggressive marketing campaigns by well-heeled utilities, have resulted in a significant reduction in the number of the oil heat homes. The Fuel Merchants Assn. of New Jersey (FMANJ), which once boasted as many as 1,000 heating oil marketer members, now has fewer than 400. This attrition, although partly the result of acquisitions and consolidations, demonstrates how the market has shrunk in the past decade. About 1.2-million homes in New Jersey are currently heated with oil. In 1980, this figure approached 3-million.

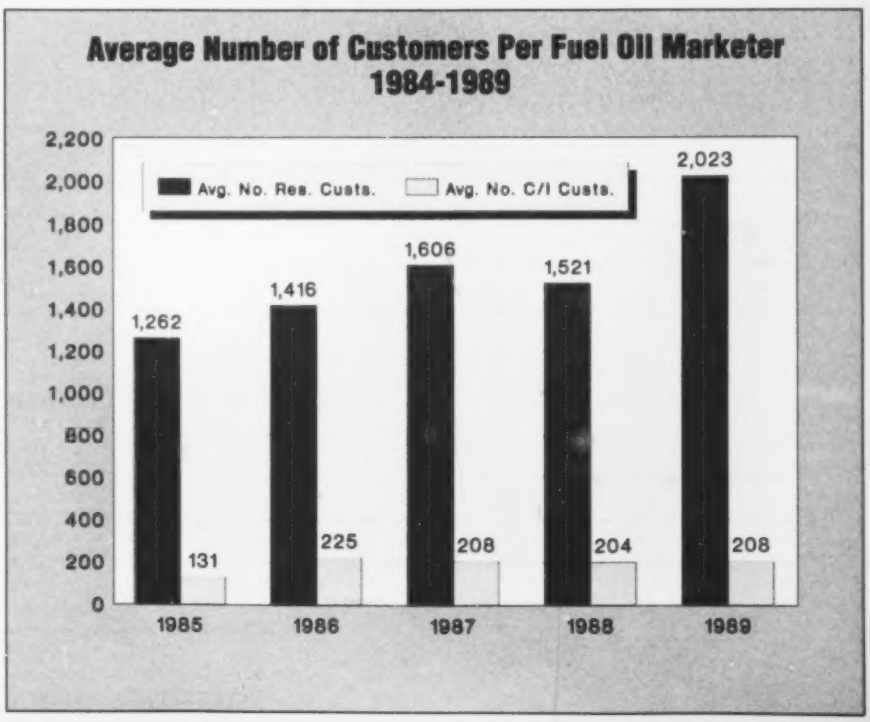
FMANJ officials acknowledge that this year's tug-of-war for heating customers is particularly bloody, with utilities like Public Service Electric & Gas Co. (PSE & G) and Elizabethtown Gas Co. (Etown) seizing on the price situation with intense media placement that has been effective in promoting conversions.

How effective? PSE&G reported a 20% increase in inquiries as a result of its marketing efforts. In September, the company converted 1,317 customers from oil to gas, a 14% increase over last year. Etown Gas said the number of inquiries it received about conversions went up from 466 calls during August and September 1989 to 1,466 during the same period this year. Officials also noted that conversions had already been rising as a result of the increases in heating oil prices last December. Other state utilities report similar increased interest in oil-to-gas conversions.

Who profits?

Beside the utilities, the current surge in oil prices seems to be a boon to speculators, who live and die by market fluctuations. Stable oil prices are no fun for them, so they're reveling in the current roller coaster ride the Middle East situation has created.

On a typical day in mid-October, for

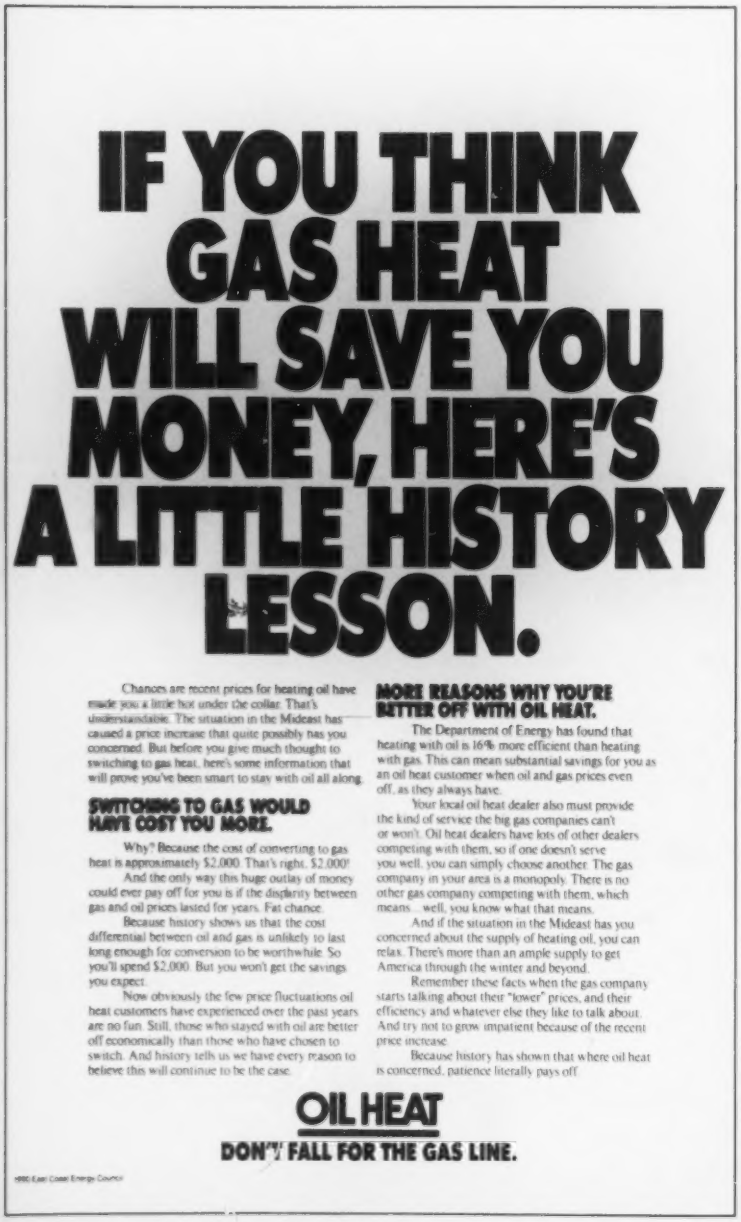


example, oil prices seesawed wildly on the futures market, first jumping into record territory above $41 a barrel, then tumbling again after a rumor was spread about the death of Saddam Hussein. Home heating oil prices on the New York Mercantile Exchange (NYMEX) mirrored the ups and downs of crude, finally settling at just over $1.01 per gallon, a drop of more than 5¢ from the previous day. Still, the price was almost twice as high as the lifetime low for November 1990 futures (51.3¢ gal.). Two days later, the price had bounced up another nickel per gallon. For one 42,000 gal. trading contract, that 5¢ represents a swing of $2,100.

Critics of commodity trading were quick to accuse speculators of initiating the increases. One lawmaker called for regulators to take a closer look at the way business is conducted on the Merc. "The teeth of these speculator sharks are ripping away at the muscle of our economy," said Sen. Joseph I. Lieberman (D-CT), who suggested that oil speculators be forced to put up more money when they make deals (traders are currently required to put up about 20% to 25% of the value of futures' contracts). He also said traders should be limited in the amount of oil that can be traded at one time.

NYMEX, in response, noted that it has raised the amount investors must now put up to make oil deals to what officials believe is an appropriate response to the recent wild fluctuations. Trading limits are basically 1-million barrels for next month's delivery, but for big oil companies, the limits can be raised to an undisclosed amount.

Meanwhile, the *Wall Street Journal* reported in early October that oil state banks haven't benefited from increased oil prices. Southwestern banks reported flat results for the third quarter of 1990, with some analysts predicting that the run-up in oil prices could actually prove detrimental to Oil Patch state economies and, therefore, to banks in the region, the *Journal* said. "Since the last boom-bust cycle in the oil industry, many of these economies have diversified into industries more closely linked to the general U.S. economy. Thus, the reasoning goes, if higher energy costs cause a recession in the rest of the U.S., states such as Texas will suffer too."


IF YOU THINK GAS HEAT WILL SAVE YOU MONEY, HERE'S A LITTLE HISTORY LESSON.
Chances are recent prices for heating oil have made you a little hot under the collar. That's understandable. The situation in the Mideast has caused a price increase that quite possibly has you concerned. But before you give much thought to switching to gas heat, here's some information that will prove you've been smart to stay with oil all along.
SWITCHING TO GAS WOULD HAVE COST YOU MORE.
Why? Because the cost of converting to gas heat is approximately $2,000. That's right, $2,000!
And the only way this huge outlay of money could ever pay off for you is if the disparity between gas and oil prices lasted for years. Fat chance.
Because history shows us that the cost differential between oil and gas is unlikely to last long enough for conversion to be worthwhile. So you'll spend $2,000. But you won't get the savings you expect.
Now obviously the few price fluctuations oil heat customers have experienced over the past years are no fun. Still, those who stayed with oil are better off economically than those who have chosen to switch. And history tells us we have every reason to believe this will continue to be the case.
MORE REASONS WHY YOU'RE BETTER OFF WITH OIL HEAT.
The Department of Energy has found that heating with oil is 16% more efficient than heating with gas. This can mean substantial savings for you as an oil heat customer when oil and gas prices even off, as they always have.
Your local oil heat dealer also must provide the kind of service the big gas companies can't or won't. Oil heat dealers have lots of other dealers competing with them, so if one doesn't serve you well, you can simply choose another. The gas company in your area is a monopoly. There is no other gas company competing with them, which means...well, you know what that means.
And if the situation in the Mideast has you concerned about the supply of heating oil, you can relax. There's more than an ample supply to get America through the winter and beyond.
Remember these facts when the gas company starts talking about their "lower" prices, and their efficiency and whatever else they like to talk about. And try not to grow impatient because of the recent price increase.
Because history has shown that where oil heat is concerned, patience literally pays off.
OIL HEAT
DON'T FALL FOR THE GAS LINE.
1990 East Coast Energy Council

A new ad campaign was developed by the East Coast Energy Council in the wake of the Iraqi crisis. The ad reminds consumers that gas and oil are historically competitive and, that the $2,000 cost of conversion to gas could never be recouped.

Other industry problems

As if high prices and intense competition weren't enough headaches for oil heating marketers, the industry suffered recent setbacks in other areas as well. In mid-September, a Federal Energy Regulatory Commission (FERC) administrative law judge ruled in support of the 370-mile Iroquois pipeline, destined to bring Canadian natural gas into the Northeast. The pipeline was considered a major threat to oil heat's market share in what is the last region of the U.S. in which gas does not have an overwhelming majority of residential customers.

The FERC judge found that since the Canadian gas is needed to meet projected demand, the project would not be unfair to domestic gas producers who have argued that domestic gas will be discriminated against if the project is approved without modifying the rate structures. This "unholy alliance" between oil heat and domestic gas producers was thought to be a key tactic in the battle against the pipeline, since it enabled the oil heating industry to benefit from the "big guns" of the gas producers.

The project was slated for final review by the commissioners of FERC in November, and opponents were expected to lobby against the pipeline feverishly. The dis-

position of several additional proposed pipeline projects are said to hinge on the outcome of the Iroquois decision, so both sides have pulled out all stops in this key matter.

On the economic front, the industry was experiencing a general slowdown in activity even before the Iraqi situation emerged. Manufacturers of oil-fired heating equipment complained about poor sales throughout the spring convention season. Although attendance at the industry's major exhibition—the National Assn. of Oil Heating Service Managers, Inc,. annual convention and trade show—set another record, exhibitors said interest in appliances was generally lukewarm. Other regional shows, including the FMANJ show in Atlantic City and the Pennsylvania Petroleum Assn. convention in Hershey, also reported good attendance but just so-so enthusiasm in equipment being exhibited.

It's difficult to determine how the slowdown in equipment sales translates into heating oil business by marketers since virtually all dealerships are closed corporations that don't release financial figures. However, the nation's largest heating oil retailer, Petroleum Heat & Power Co., Stamford, Conn., is a public company and reported net earnings for the first six months of 1990 down from $4.7 million in 1989 to $352,000. The reason given for the drop is the record warmth that followed the December cold snap, as well as an aggressive acquisition strategy that saw Petro gobble up 22 companies in the past 18 months. Its customer base is variously estimated at anywhere between 350,000 to 600,000 throughout several Northeastern states.

Industry strategy

This year's National Oil Heat Marketing and Promotional Conference, sponsored annually by the Petroleum Marketers Assn. of America (PMAA), convened in mid-August, just after the Mideast problem began but before the full extent of its ramifications were known. Its potential effect was not slighted, however, as the industry's experts assessed the situation as the "most serious interruption in the commodities market since World War II."

Some 300 marketers and industry suppliers got together in Boston to discuss not only the coming heating season, but the long-term plans for oil heat. Vera Haskins, PMAA Heating Fuels Committee chairwoman, said at the beginning of the conference that she wanted its atmosphere to be "upbeat," and although the Middle East situation made that rather difficult, the event was nonetheless termed a success.

Discussed at the conference in addition to the Kuwaiti situation was the price spike of last December. It was noted that legislators, probably for the first time, began to recognize that natural gas interruptible customers were part of the marketplace and play a role in price and supply. Experts noted that as long as natural gas utilities force some of their commercial customers to switch to distillates when gas supplies are tight, future price problems are inevitable.

Also presented at the conference was another attempt to unify the fragmented oil heat industry, which has always had a great deal of difficulty in accepting a central theme or direction since the National Oil Fuel Institute folded in the early 1970s. The latest idea, called the National Information Committee for Energy (NICE), was presented by Ms. Haskins, who wants the body to provide an information resource center to help change the public image of oil heat. The committee would in effect put forth a single industry point of view, instead of the current approach that is often varied and confusing. To fulfill this aim, Haskins has involved the National Energy Education Program, which works through 4,000 high schools and local communities in 32 states, to inform the next generation of homeowners of all the energy alternatives. "To change oil heat's image," Haskins explained, "we must start with the children."

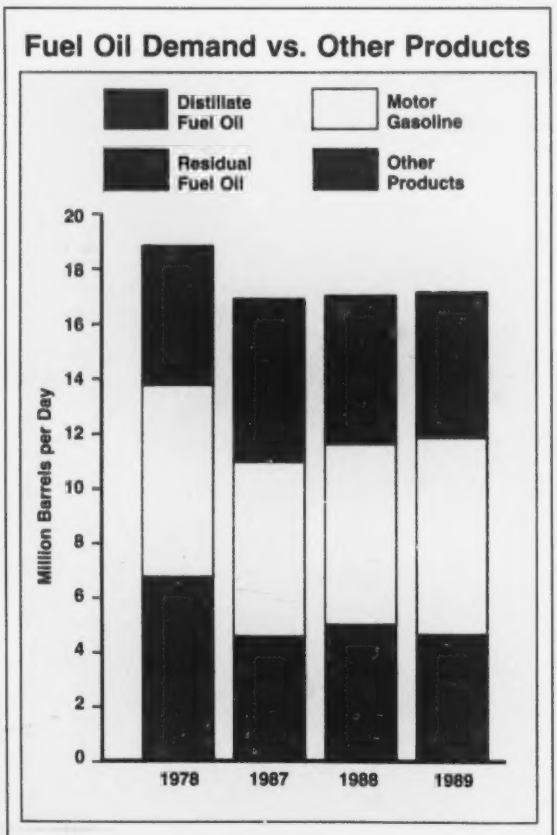
Oil heat's future

To be sure, the oil heating industry will still be around when this next generation becomes the breadwinners of society. As noted in last year's *Fuel Oil Outlook*, the industry has shown remarkable resiliency over the past quarter of a century, refusing to cave in to the well-organized, well-heeled utilities.

Even if the worst-case scenario comes to pass this heating season and the industry experiences significant erosion in its customer base, strong marketers will survive and continue to be viable enterprises well into the 21st Century.

Marketers most vulnerable will be those with poor communications channels with their customers, those which offer no service, those which offer service through sub-contractors, and those which market heating oil simply as an adjunct to other businesses. Companies that have developed good relationships with their customers can expect to maintain their market share even though they temporarily lose a competitive edge. The majority of homeowners have proven that they prefer to deal with a local company that cares about them than the ubiquitous utilities as depicted in oil heat's successful "Gas & Electric" commercials.

So while the outlook for fuel oil could be much brighter, 1990 will by no means be the end of the industry. It may well be remembered as a pivotal year because those marketers who survive will have done so by effectively marketing themselves and their products on merits other than price. This is a difficult but not impossible task. It is easy to sell with a price advantage, something oil heat enjoyed in its heyday. Having the tables turned will be an enlightening experience for many. NPN



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Editor's Viewpoint

Happy New Year!

And what a New Year it is. I've decided that my resolution for *NPN* this year is to make the magazine more informative and more focused on the issues, the opportunities and the problems you face; in short, make it even more valuable to you, our readers. In turn, I hope this will help you drum up more business and squeeze out a higher level of profitability than you've probably achieved these past few, sometimes nightmarish months.

Since I took over as Editor in Chief eight months ago, I've attempted to make a start in this direction. I am confident we can make even greater strides—a pretty tall order when you are improving on a magazine that already gets high marks for journalistic performance.

This industry has been battered and bruised from all quarters over the past few months. And the outlook for 1991, as you will read beginning on p24, doesn't appear to be brightening too much, at least in the short term. Without question there's "rough water" ahead for the industry.

However, the fact that you've survived all the turmoil of this latest crisis—and several before that—shows just how resilient you are. And how innovative. If I might use an old cliche: When the going gets tough, the tough get going. As one marketer put it, "We've become specialists in survival." And that's an understatement in light of the multiple trials most marketers have had to endure.

Undoubtedly, you will face many new challenges in the years ahead. And along the way you'll discover many new opportunities—new profit streams both in petroleum marketing and in diversified enterprises. Despite the bleak picture some industry analysts like to paint, I'm convinced the petroleum market is fundamentally strong. We can't sweep the problems you've encountered in 1990 under the rug, but we can look toward tomorrow with new optimism. As 1991 begins, I hope that the months ahead will become brighter, that your business prospects will be enriched, if not immediately in dollars and cents, then perhaps in spirit.

On another note, our Factbook editors have to wrestle with all sorts of numbers and problems to create many of the tables and reports that appear in both. Last spring, when they were preparing the Share of Market tables, they had to make an estimate for the total gasoline market, not only by states but also by companies. Wrestle they did and old pro Dick Shaner came up with an estimate of 114,600,000,000 bbl. The Federal Highway Administration in late October issued its official gasoline consumption numbers: 115,557,638,000. *NPN* was off target by only eight-tenths of one percent. How's that for the kind of bull's eye info *NPN* routinely delivers to our readers? —*Peggy Smedley*

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Whether or not war flares up in the Middle East, petroleum marketers face turbulent and volatile market conditions in the year ahead. Here's the 1991 outlook.

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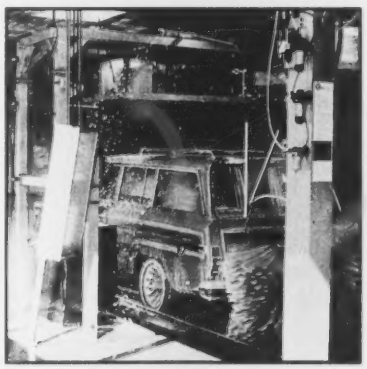

For Northeast and Chicago car wash operator Delta Sonic, bad weather means good business. The company has developed a "hybrid" soft cloth/spray system to take care of Snow Belt customers.

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Browning Oil, an old-line Kentucky jobbership, branched into C-stores relatively late in the game. But the payoff has been quick, with both gasoline and store sales on the upswing.

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• TRENDS

Price Hikes Are Milking Premium-Grade Sales

It may be a bit too early to be definitive and positive about it, but marketplace reports indicate that the premium grades of gasoline are already taking it on the chin as a result of the Middle East crisis and skyrocketing motor fuel prices.

And there's not much likelihood that this trend will be reversed this summer or next.

The premium grades, with their 93/94 octanes and other additive features, accounted for anywhere from 10% to 60% of market shares throughout most of 1990, depending entirely on the location. It's probably safe to say that, on average, premium sales were about 40% of total marketplace consumption at the end of the third quarter.

Specific info on the decline in premium sales is hard to come by. But here are some instances from Whitney Leigh Corp., of Tulsa, Okla., which is ranked No. 2 in the collection and publication of retail gasoline data:

In the Los Angeles marketplace, the biggest gasoline market in the U.S., unleaded premium sales were 27.8% of the market in early August and 22.9% in late October, a decline of 5% in two months; Tampa, Fla., from 34.5% to 26.5% on Nov. 1, a drop of 8%; Syracuse, N.Y., from pre-Kuwait days of 22.7% to late September, 14.7%.

There's no problem with the quality of the gasoline; it's just that great gobs of motorists who hadn't objected basically to $1.35 to $1.50 gal. in the first half of 1990 are thinking otherwise about $1.50 to $2.00 gal. for their tank refills. Many are dropping all the way back to regular grades, skipping the mid-grades entirely. It must be remembered that only 25% or less of the cars on the road actually require premium grades and that many consumers responded more to ego than buying needs.

While pump retails for unleaded premium hadn't exceeded the $2.00 gal. mark by December 1, there were some places—particularly the rural and resort areas—where they were so close that it was only a matter of time until they did.

"People just aren't paying attention to all the hype that's around for premium fuels," one marketing authority says. "They aren't buying the brand name bit either. They learned long ago that their cars will run on just about anything and they'll pay any price to get it if necessary. But when supply is more than adequate, as it is today, price is the taskmaster—the real taskmaster."

A lot depends, naturally, on what happens in the Middle East in the first quarter of the new year—and thereafter. A January 15 deadline has been set by the U.N. for Iraq to get out of Kuwait or else.

There's much concern about the national economy, too. The experts don't agree. Some say the recession has started, others that the nation is already well down the road. A well-known TV commentator remarks "perhaps the best word is regression, which essentially means we're not going up or standing still—we're slipping."

A wartime economy will play hob with any and all projections for 1991 for everybody, not just petroleum. In that case, all bets are off, as the bookies say it.

In stalemate, gasoline prices can't help but go up, the way many economists see it. Current crude and product excesses will probably be flattened out by next spring. That'll hotten up the pressures on higher prices. So will the costs for research and reformulated or new fuels. The feds have already bumped the excise tax structure 5¢ gal., effective December 1. Is there any way for pump prices to go anywhere but up?

Is there a possibility that the future may work itself down to two grades of gasoline (assuming gasoline remains the prime fuel of mobility)—a super, high cost premium to take care of all the cars that really need it and the cities/regions that mandate it for clean air purposes, and a basic regular grade for the rest of the nation? Don't forget, in little more than a dozen years, leaded gasolines have all but vanished from the marketplaces. It could happen to unleaded, too.

J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

SEPTEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.431	$1.354	$1.378	$1.554
Regions				
Northeast	1.476	1.329	1.401	1.603
North Central	1.435	1.386	1.392	1.569
South	1.405	1.356	1.341	1.517
West	1.419	1.343	1.389	1.548

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	11/30/90	12/1/89
Gasoline (Total)	221,100	223,080
Gasoline (Unleaded)*	171,347	166,940
Jet Kerosine	45,281	44,293
Distillates	132,850	121,458
Residual	51,202	52,557

**Included in gasoline total.*
Source: American Petroleum Institute.

1991 Outlook:

War or No War, Rough Waters Ahead

Courtesy of U.S. Navy

J. Richard Shaner
Executive Editor

For oil marketers everywhere, this year and the next seven or eight are going to be more turbulent and volatile than any period they've ever faced before or had to cope with in "look ahead" planning sessions.

They're going to exceed the traumatic price collapse of 1986, the product shortfalls and "gas" lines of the late '70s, and the religious embargo upheaval of the early '70s.

For starters, consider the possibility that the "motor fuel" of tomorrow may be vastly different from what marketers have been used to selling. This means as a hands-on consequence that storage tanks and dispensing equipment may have to be altered or redesigned—this on top of the millions that already have been spent on replacement and upgrading of all those underground storage tanks?

Then there's that pesky Middle East situation, too.

If the nations of the world, including the United States, are at war with Iraq in 1991, all bets are off, as the bookies used to say. Anything and everything could and probably will happen to the petroleum business then. The outcome depends on how long the war will last and the kind of weaponry that is employed.

Things to be feared most by marketers if war occurs would be a quick return of federal price and allocation controls, crude and product shortages, "gas lines," plus the sort of other regulatory misadventures that occurred during World War II. Even though the regulatory times and lessons of the '70s were painful for both government and industry, the bureaucrats and militarists won't delay in bring them back. The federal government long ago considered, but shelved for the time being, enabling legislation to reinstitute regulatory controls in the event of another war.

Crises beget pessimism and this latest crisis is no different. There's little doubt there's rough water ahead for the industry. But petroleum marketers have shown time and again over the past two decades that they are a remarkably resilient and innovative group. "We've become specialists in survival," comments one Midwest marketer.

Belly-ups coming?

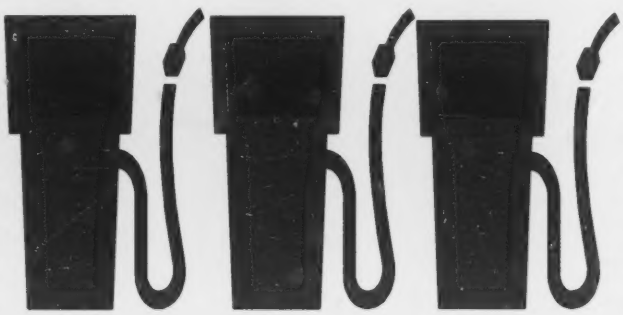
If there's a prolonged stalemate in the Middle East, there will still be turmoil in oil marketing, precipitated by rising prices for crude and product, regardless of whether inventories are up and demand is down. A number of small companies and independents can be expected to call it quits in 1991 and '92; the pump prices and margin squeezes will be that tough.

One big eastern independent, for that matter, looked at a room full of his colleagues partaking of the assortment of goodies provided by their suppliers in November and, with a wave of his arm, summed the situation up in this way: "They're having fun now. But if things don't change for the better, this time next year, half of them won't be here. They'll have turned up their toes or gotten out."

With the way things are now, he went on, an independent can't make enough money anymore to keep going. "All the fun's vanished too," he added. "Oil marketing—any kind of oil marketing—just isn't what it used to be."

His observations shouldn't be a surprise to savvy oil marketers. In substance, they parallel and accelerate a similar forecast by Petroleum Marketers Assn. of America (PMAA), which last year predicted that only half as many jobbers as there are now would still be in business by the year 2000.

Ignoring the war dilemma for the moment, however, serious problems are facing marketers and their suppliers in the immediate future.



No one, for example, knows for sure what kind of a product he or she is going to be selling by the late 1990s, or the kind of storage tanks, dispensers and other facilities he or she will have to have to stay in business, or the types of high-tech engines and motor vehicles he or she will have to take care of.

There will be one or more "motor fuels," in the mid-to-late '90s, of course, but they won't be simple gasolines like suppliers and marketers have been accustomed to selling for most of the 20th Century. The same applies to distillates for diesel fuel and space-heating and to kerosine and liquefied gases for farm and industrial uses.

Right now millions of dollars are being spent by the oil and automotive industries on co-op research projects to find the fuel(s) of the future.

Progress reports on these experiments are expected to be released this summer. Some 30 different mixtures and alternative fuels ranging from reformulated gasoline to liquefied petroleum gas, natural gas, methanol, ethanol and so on, with and without additives, are being tested to see which offer the best prospects for tomorrow. In the background also are electric and battery-driven cars. They're usable now but are impractical because of their operable limitations. But who's to say how soon someone will shout "eureka, that's it!" and make them practical roadrunners?

The fuel problem is unsettled now, but sure to grow in its spectral dimensions. The Clean Air Act that President George Bush signed into law in mid-November is wonderful for what it presages for the environmentalists and the nation but sobering and more than a little scary for an industry that will have to produce the new fuels and make the necessary marketing adjustments.

Said President Bush as he flourished his signature pen:

"This bill means cleaner cars, cleaner power plants, cleaner factories, cleaner fuels [and] a cleaner America."

Said American Petroleum Institute (API) president Charles DiBona at the API annual meeting in November:

"No one has yet made the fuel that the Clean Air Act requires by 1995. And no one yet knows how to make it."

DiBona said the performance standards will be extremely difficult to meet and "they were made worse by an unnecessary oxygen content requirement which was incorporated thanks to the self-interest of the ethanol lobby."

The API president's comments were an image reflection of similar expressions by other top industry executives.

Bruce Beyeart, Chevron Oil, San Francisco, told a panel session at Society of Independent Gasoline Marketers of America (SIGMA) annual meeting, also in Chicago in November, that the deadlines for oxygenated gasoline (Oct. 15, 1992) and reformulated gasolines (January 1995) appear "almost impossible" at this particular time.

Not only that, he said, but the deadlines could easily cause gasoline shortages and run-outs in some areas and drive up retail gasoline costs "appreciably."

Don't count gasoline out

But DiBona was optimistic about gasoline's role in the future. He said:

"Major changes in refineries will be needed...but the industry is committed to

achieving the task, and the technical expertise we have is the key to doing it.

"We are already producing cleaner gasolines, and we are aggressively continuing the search for the even cleaner gasolines required by the law. It won't be easy, but if it can be done, we alone can do it. And in doing it, we will ensure that gasoline is the fuel of environmental choice for decades to come."

DiBona was not about to throw in the towel for the industry. "We've weathered the ups and downs of a cyclical business," he said in Chicago, "but the notion that our best days lie in the past, that this is an industry in rapid decline, is simply wrong.

"We provide a vital commodity," DiBona said. "And while many changes will be expected of us, our contribution to the well-being of society is not likely to change in the lifetime of anyone in this room."

Environmentalists are in their heyday now and there's not much likelihood that the 1992 and 1995 deadlines for the so-called cleaner-burning motor fuels will be delayed.

"About the best I can see," says one oil industry expert, "is maybe a 20% to 25% chance of postponements and even those would be tough to come by. I'd say only a prolonged war could stave off the deadline provisions of the Clean Air Act."

Another big bugaboo for 1991 and thereafter is the way prices seem to have gotten completely out of hand after the Iraqi conquest of Kuwait.

Said one cynic: "Crude and product prices began moving about 20 minutes after the first soldier crossed the border."

It wasn't exactly that way, of course, but crude subsequently did skyrocket from about $23 bbl. to $40 bbl. in a matter of weeks. Just before the Thanksgiving Day weekend, crude had receded somewhat, to the $30 bbl. level.

Gasoline prices

Not so with gasoline and fuel oil prices, however. Amidst consumer cries of gouging, an attitude that was shared by many gasoline and fuel oil wholesalers and retailers, pump prices for gasoline whirled up crazily to a range of $1.50 gal. for regular to $1.70 gal. for premium in many areas. Householders ripped heating oil dealers for charging $1.40 to $1.50 gal. for the first of their wintertime tanks of distillate. But dealers had no choice either. Their wholesales went up too, as did the other products.

There is little likelihood of relief from these problems in 1991. Forecasts that supplies were more than adequate in the fourth quarter of 1990 and for the first quarter of 1991—something that should bring prices down or, at least dampen the prospects for increases—won't help at all.

Higher Prices Are Coming In '91, Feds Say

Ignoring the possibility that a war in the Middle East would change their forecasts overnight, the federal government's petroleum experts say they anticipate higher product prices in 1991 and a small but noticeable decline in consumption.

Interestingly, government economists favor a $30 bbl. price scenario for crude oil in their latest forecast. They prepared three basic scenarios—$25 bbl. crude, $30 bbl. crude and $35 bbl. crude. They say, almost cautiously, that the three scenarios are not projections per se, but ranges of what could be in the wind under certain economic assumptions.

If war comes, there's no telling how high crude prices (and product prices) will go. In the fourth quarter, for example, crude prices ranged from $30 bbl. to $40 bbl. in spot markets.

The chart shows the basic $30 bbl. projection:

PRICES

	1989	1990	1991	% Chng 91 vs 90	% Chng 91 vs 89
Crude per bbl.	$18.08	$22.30	$30.00	35%	66%
Gasoline *	1.06	1.22	1.46	20	38
No. 2 Diesel	.99	1.14	1.36	16	37
No. 2 Wholesale	.57	.70	.89	27	56
No. 2 Retail	.90	1.06	1.29	22	43
No. 6 Resid	.39	.46	.62	35	59

** Average for all grades and services and includes taxes.*

SUPPLY

(million b/d)

Gasoline	7.33	7.25	7.03	(3)	(4)
Distillate	3.16	3.01	2.90	(4)	(8)
Resid	1.37	1.24	1.00	(19)	(27)
Total **	17.33	16.99	16.26	(4)	(16)
Imports	7.20	7.47	6.62	(11)	(8)

*** Includes all oils.*

As for heating oil this winter, federal economists have this to say:

"Given a range of world oil prices of $25 to $30 bbl., retail heating oil prices are expected to range from an average of 18¢ to 46¢ gal. higher this winter compared to last winter. Primary distillate stocks are currently much more plentiful than they were at this time last year (4th quarter), making it somewhat unlikely that average retail price increases would exceed 46¢ unless prolonged, severely cold weather occurred."

The 1991 outlook for gasoline demand is also on the negative side. Say the federal prognosticators:

"Motor gasoline demand is expected to decline substantially in all three price scenarios, following an expected decline of 1.1% in 1990. Demand (as measured by product supplied) was weak for several months prior to the Iraqi invasion of Kuwait. From January through July 1990, shipments were down by almost 1.0% from the same period in the previous year because of the slowdown in the economy."

Using the range of oil prices and economic assumptions in this forecast, a decline in petroleum demand in 1991 could range from 400,000 b/d to as much as 1-million b/d, agree the economists. The economists add the assumption that motorists will take steps to cut back sharply on highway travel and to maximize vehicle efficiency if motor fuel prices go up as much as 40% to 50% in 1991.

The federal soothsayers made no mention of it, but industry experts expect the unleaded premium fuels to take the worst beating if prices continue to rise. Some marketplaces have already registered declines of 10% or more in unleaded premium sales as motorists dropped back to regular and mid grades. Leaded premium has all but vanished from the marketplaces, averaging less than 5% of total consumption.

U.S. PETROLEUM SUPPLY AND DEMAND—1991 FORECAST

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	1991 Average	1990-'91 % Chg.
DEMAND						
Domestic Products						
Motor Gasoline	6,863	7,225	7,356	7,151	7,150	-1.5%
Aviation Fuels	1,527	1,501	1,546	1,596	1,543	1.8%
Distillate Fuel	3,321	2,918	2,830	3,352	3,105	0.2%
Residual Fuel Oil	1,438	1,147	1,133	1,290	1,251	-3.2%
Other Products	3,892	3,867	4,080	3,836	3,919	-0.2%
Total Domestic Demand	17,041	16,658	16,945	17,225	16,968	-0.7%
Total Exports	786	760	764	819	782	-0.4%
TOTAL DEMAND	17,827	17,418	17,709	18,044	17,750	-0.7%
SUPPLY						
Domestic Production						
Crude Oil	7,252	7,158	6,998	6,770	7,043	-2.5%
Natural Gas Liquids	1,555	1,536	1,508	1,506	1,526	1.3%
Total Production	8,807	8,694	8,506	8,276	8,569	-1.9%
Imports						
Motor Gasoline	394	440	412	406	413	-5.7%
Aviation Fuels	105	115	86	91	99	-6.6%
Distillate Fuel	350	266	249	339	301	-0.7%
Residual Fuel Oil	620	482	477	546	531	-3.3%
Other Products	836	782	799	757	793	-0.8%
Total Products	2,305	2,085	2,023	2,139	2,137	-2.6%
Crude Oil Imports	6,014	6,111	6,616	6,598	6,337	2.1%
Total Imports	8,319	8,196	8,639	8,737	8,474	0.9%
Other Supply	479	799	899	627	702	-17.6%
TOTAL SUPPLY	17,605	17,689	18,044	17,640	17,745	-1.3%
Refinery Crude Runs	13,273	13,678	14,286	13,665	13,728	-1.1%
CLOSING STOCKS (millions of bbl.)						
Motor Gasoline	230.7	216.5	220.7	222.5	222.5	3.1%
Aviation Fuels	46.5	45.3	47.4	44.1	44.1	-0.9%
Distillate Fuel	100.9	105.9	125.2	118.6	118.6	-4.0%
Residual Fuel Oil	44.4	45.9	47.8	46.2	46.2	0.9%
Other Products	257.1	288.8	298.3	268.8	268.8	1.4%
Total Products	679.6	702.0	739.4	700.2	700.2	0.8%
Crude Oil	342.2	344.5	337.9	339.9	339.9	-2.0%
TOTAL STOCKS	1,021.9	1,046.5	1,077.3	1,040.1	1,040.1	-0.2%
IMPORTS AS % OF DEMAND	48.8	49.2	51.0	50.7	49.9	

NOTES: Other Supply includes refinery processing gain, unaccounted crude oil and other hydrocarbons. SPR imports and stocks are excluded. Refinery Crude Runs include crude oil, NGL, unfinished oils and other hydrocarbons.

Source: IPAA Supply and Demand Committee, October 1990.

Don't forget that the first price spikes took place in August and September, when there were excesses of crude and product literally around the world. The Saudis and other OPEC countries quickly compensated for the 4-million bbl./day that Iraq and Kuwait cut off. Thus, as the old year faded into history, there were no supply problems.

Rising cost factors are going to keep needling gasoline and other product prices upward in 1991 and all though the rest of the '90s. The federal government, for example, bumped its excise take several pennies to help overcome its fiscal budget problems. The new reformulated gasolines, as Bruce Beyaert told SIGMA members, are going to increase manufacturing and consumer prices "appreciably."

Looking down the road, some industry people already consider $2 gal. gasoline a very likely scenario by the end of this year and $3 gal. gasoline an open-end possibility by Dec. 31, 1992. Hardly a single

soul foresees buck-a-gal. (or less) gasoline again. Unless, of course, the crude oil world falls apart again as it did in 1986 when prices plunged to $8 bbl. Such a financial catastrophe would probably tear the petroleum industry in half, with bankruptcies just about everywhere.

Barring an outbreak of war, however, calmer voices in the industry suggest that basic supply/demand dynamics will eventually settle in again to soften, if not turn around, the pricing splurges of recent months.

Despite the price spikes in the last five months of 1990 and the sharp criticism from consumers that accompanied them, the industry got a pat on the back from the federal government's energy department for its restraint and overall deportment in the last six months of 1990.

Deputy Energy Secretary W. Henson Moore told the API meeting in November that his people could find no evidence of gouging by the American oil companies.

"If anything," he said, "there has been a lack of profits that should have been made and prices that should have been charged for gasoline."

But Moore explained that while the major oil companies restrained the price of gasoline they sold to their own dealers they did not act in the same fashion with their independent distributors, making it tougher for them to compete. Many wholesalers and retailers agree with this statement, of course.

Many retailers complained that their wholesale prices often were higher than the street prices of their branded competitors. This produced a revival of the chant that has been repeated within marketing for a half century or more: "The big boys are trying to drive us out of business and take over our stations."

Divorcement challenges

A direct result of these complaints and the fact many of them were unchallengeable was a fresh surge of demand for divorcement legislation on federal and state levels. Some states already have divorcement laws on their books but the growing pressure for more in '91 and '92 can't help but make this an increasingly critical issue this year and next.

Adding fuel to the fire was the fact that PMAA was considering, at year-end, proposals that it join the fight by reversing its old position on divorcement and urging Congress to act.

SIGMA, too, might cast its lot with PMAA in seeking legislative remedies to perceived marketplace discrimination. At their meeting in Chicago, SIGMA officials said they would meet with PMAA and the National Assn. of Convenience Stores (NACS) to seek a "consensus" on possible marketer legislative proposals.

However, PMAA's membership is anything but unanimous in its support of divorcement legislation, so this will be a needling factor all through 1991 for the association and the big oil companies. It's even conceivable that an internecine struggle might tear PMAA apart, too.

Suppliers are reacting rather violently to the fact that PMAA is even considering support for divorcement. Criticism and scorn from top executives are everywhere. Some companies are telling their branded outlets and distributors outright to use their weight against divorcement talk within PMAA, implying there might be consequences. One top industry executive, president George Babikian of Arco, canceled plans to address a PMAA luncheon when he learned that PMAA had a divorcement item on its meeting agenda.

Futures markets

There could and probably will be some first-class ruckuses over the futures markets in New York and Chicago and their alleged role in overheating the price spikes of recent months. Congress already has been asking questions and more hearings unquestionably are in the offing in 1991.

The futures markets, at year-end, were being blamed for much of the volatility in crude and product prices, not the importers and the suppliers. Non-petroleum speculators and brokers were cited frequently as the cause of it all.

Much was made of contentions that rumors, including wild-eyed ones about dreams and nightmares, unjustifiably triggered the market into action. Said Sen. Joseph Lieberman, a Connecticut Democrat and a sharp critic of the futures markets:

"It's startling to think of oil prices being set by young guys on the floor of the exchange screaming at each other based on rumors.

"Prices are subject to manipulation by speculators, people who are not interested in physical oil, people who are just playing with paper to make money."

What he was alluding to there was that almost all of the contracts bought and sold on the futures exchange are settled for cash, not wet barrels.

Non-petroleum speculators can't be blamed for it all, however. At the Senate's first look-see in November, Amerada Hess admitted that it made more than $200-million in August-September speculation.

Although other major oil companies haven't been that talkative about futures activities, there would be no reason to doubt that they're in the thick of it up to their necks, too.

As a matter of fact, says one industry analyst: "My guess would be that everybody—all up and down the line—grabbed handfuls as the opportunities occurred."

The futures exchanges aren't going to cave-in on the issues. Responding to reports that in case of war, the government may step in and halt trading because of the explosiveness and volatility of the exchanges, Lou Guttman, the chairman of the New York Mercantile Exchange, gritted his teeth and said: "Hell is going to freeze over before they interfere with our market."

Guttman categorically refuted the charges that the futures exchanges were responsible for the price spikes. "NYMEX didn't create the current crisis," he said at a press briefing in Chicago.

OPEC oil

War or no war, industry economists assume that once it's over, Iraqi and Kuwaiti oil will come back into the marketplace. Other oil exporters around the world have already made up the 4-million bbl./day that they represented before the confrontation took place last fall.

"It won't happen overnight, of course, but in a reasonable period of time the international marketplaces will be glutted with that 4-million b/d. It's going to require a tremendous adjustment by the Saudis and others to handle it. If they don't, oh boy."

Looking ahead

On another page in this report there is a 1991 forecast prepared by Independent Petroleum Assn. of America (IPAA). This group has a pretty good track record in projecting statistics. This time 'round IPAA anticipates minor falloffs this year in supply and demand, but no big changes in any direction including consumption. How valid the figures will be depend entirely on what happens in the Middle East.

Perhaps the best way to look at 1991 is to consider the remarks of Exxon economist John Boatright at a panel session devoted to the future:

"I purposely did not prepare a written text for this session. I wanted to be right up to the minute on my numbers...but I didn't want any of them to be in writing so they could come back to haunt me next week or next year."

A well-known East Coast marketer summed it up this way:

"We're living in tenuous times and nobody, but nobody, really has a handle on what's going to happen next week, next month or next year.

"We don't know whether the next TV or newspaper reports are going to deal with bullets and bombs or routine weather reports on sandstorms in Saudi Arabia. Where war or no war is concerned, it's like the bookies say, 'Six to five and take your pick.'" NPN